



Senate File 2275 – Internet Poker and Consumer Protection (LSB 6026SV)
Analyst: David Reynolds (Phone: 515-281-6934) (dave.reynolds@legis.state.ia.us)
Fiscal Note Version – New

Description

Senate File 2275 authorizes current gaming licensees to apply for an internet wagering license for poker. The Bill:

- Defines internet wagering as a method of wagering that allows a person to establish an account, deposit money in the account, and use the balance for online wagering.
- Amends the definition of “adjusted gross receipts” to include proceeds relating to internet gambling.
- Allows more than one existing gambling licensee to jointly apply for an internet wagering license.
- Limits online wagering to internet poker and allows for internet wagering within the State, or as authorized by law, subject to any requirements adopted by the Racing and Gaming Commission.
- Allows the Racing and Gaming Commission to determine the license fee amount and assess a fee to an individual issued a license for internet wagering.
- Requires a person currently voluntarily excluded from a casino to be voluntarily excluded from online wagering.
- Requires a licensee to make information on internet wagering available to the Racing and Gaming Commission.
- Requires at least 3.0% of the adjusted gross receipts from internet wagering to be distributed for educational, civic, public, charitable, patriotic, or religious purposes.

Background

Federal Laws & Other States - An opinion issued by the U.S. Department of Justice on September 20, 2011, stated that the Wire Act of 1961 only applies to betting on sporting events or contests and, therefore, “interstate transmission of wire communications that do not relate to a sporting event or contest fall outside the reach of the Wire Act.” This opinion along with interpretations of the Unlawful Interstate Gambling Enforcement Act, have led many states to conclude that federal law does not apply to intrastate (within the state) internet gambling. The State of Nevada authorized intrastate internet gambling in 2011. The District of Columbia began implementing intrastate internet gambling in April 2011, but has since repealed their law.

Racing and Gaming Report - The Iowa Racing and Gaming Commission submitted a report to the General Assembly on December 1, 2011, entitled “**Report on the Possible Regulation of Intrastate Internet Poker in the State of Iowa**.” The study provides extensive review of regulatory requirements necessary to address legalized intrastate internet poker. The study also provides an estimated range for potential tax revenue that will be generated through internet poker in Iowa using extrapolated data from three nationwide studies on the topic. Authors of the study acknowledge the lack of available information for estimating the current internet poker market in Iowa.

Gambling Treatment - The Department of Public Health reported that the number of persons in counseling for problem gambling has declined 31.2% over the five-year period of FY 2007 to FY 2011 (from 1,146 in FY 2007 to 789 in FY 2011). However, the number of gambling-related calls to "1-800-BetsOff" has remained relatively constant during this period with an average number of 3,701 calls annually. Additionally, the number of hours spent on education/prevention for problem gambling has increased 24.7% (from 5,963 in FY 2007 to 7,435 in FY 2011).

Current Regulation and Enforcement Funding Process - The Racing and Gaming Commission receives an annual appropriation from the Gaming Regulatory Revolving Fund and the Division of Criminal Investigation receives an annual appropriation from the Gaming Enforcement Revolving Fund to cover the regulatory and enforcement costs related to Iowa casinos. Under current law, the Commission bills the casinos for the State's regulatory and enforcement costs. The receipts collected for the regulatory costs are deposited in the Gaming Regulatory Revolving Fund and the receipts collected for enforcement are deposited in the Gaming Enforcement Revolving Fund. Iowa law restricts the amount that the Commission can charge the casinos to the amount appropriated or otherwise authorized by the General Assembly.

Assumptions

- The Department of Public Health estimates an initial increase of 3.0% to 4.0% in the number of problem gambling treatment clients and a 5.0% increase in the cost of outside services. The Department estimates this will increase their costs by \$138,500 annually.
- The adjusted gross receipts generated from internet poker will be taxed at a rate of 22.0%. Two of Iowa's 18 casinos are currently taxed at 24.0%. Any receipts generated from internet poker offered by these two casinos could be taxed at 24.0%, which will increase the estimate.
- The Racing and Gaming Commission estimates adjusted gross receipts of between \$13.0 million to \$60.0 million annually from internet poker.
- The required minimum of 3.0% of the adjusted gross receipts from internet wagering to be distributed for educational, civic, public, charitable, patriotic, or religious purposes will continue per current law.
- The Racing and Gaming Commission estimates they will need an additional one to four positions, at a cost of \$72,000 per position, to oversee the internet poker operations. For purposes of this estimate, it is assumed two positions would be needed for a total cost of \$144,000 per year.
- The Department of Public Safety will require two additional special agents to conduct internet gambling enforcement at a cost of \$222,100 for the first year of operation and \$163,500 for each year thereafter.
- Assumes the Racing and Gaming Commission and the Department of Public Safety will receive authorization to increase their appropriations to allow the State to bill the internet poker licensees for the regulatory and enforcement costs incurred by the State.
- The estimates do not assume the authorization of interstate (between Iowa and other states) online poker.

Fiscal Impact

Senate File 2275 will generate an estimated \$2.9 million to \$13.2 million in tax revenue annually, with a midpoint of \$8.0 million. In addition, the licensees will be required to distribute an estimated \$390,000 to \$1.8 million for educational and charitable purposes. The following table shows how the tax revenue will be allocated in accordance with current law.

| Estimated Revenue and Allocations from Internet Poker | | | |
|--|---------------------|---------------------|---------------------|
| | Low End | High End | Mid Point |
| Adjusted Gross Receipts (AGR) | \$ 13,000,000 | \$60,000,000 | \$36,500,000 |
| Tax Revenue (22.0% of AGR) | \$ 2,860,000 | \$13,200,000 | \$ 8,030,000 |
| <u>Statutory Allocation of Tax Revenue</u> | | | |
| Cities & Counties (1.0% of AGR) | \$ 130,000 | \$ 600,000 | \$ 365,000 |
| County Endowment Fund (0.8% of AGR) | 104,000 | 480,000 | 292,000 |
| General Fund (0.2% of AGR) | 26,000 | 120,000 | 73,000 |
| Rebuild Iowa Infrastructure Fund (Remainder) | 2,600,000 | 12,000,000 | 7,300,000 |
| Total Allocated Taxes | <u>\$ 2,860,000</u> | <u>\$13,200,000</u> | <u>\$ 8,030,000</u> |
| Educational/Charitable Requirement (3.0% of AGR) | \$ 390,000 | \$ 1,800,000 | \$ 1,095,000 |

Senate File 2275 is estimated to increase costs to the State totaling \$504,600 in FY 2013 and \$445,000 in subsequent fiscal years. The following table shows the estimated costs related to implementation of **SF 2275**.

| Estimated State Costs Associated with Internet Poker | | | |
|---|-----------------------------------|-------------------|-------------------|
| Agency | Fund | FY 2013 | FY 2014 |
| Department of Public Health | General Fund | \$ 138,500 | \$ 138,500 |
| Racing & Gaming Commission | Gaming Regulatory Revolving Fund | 144,000 | 144,000 |
| Department of Public Safety | Gaming Enforcement Revolving Fund | 222,100 | 162,500 |
| Total | | <u>\$ 504,600</u> | <u>\$ 445,000</u> |

Sources

Department of Public Health
Iowa Racing and Gaming Commission
Department of Public Safety

March 7, 2012

The fiscal note for this bill was prepared pursuant to **Joint Rule 17** and the correctional and minority impact statements were prepared pursuant to **Iowa Code section 2.56**. Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.
